Maastricht Returns Information Note

23 April 2012

Introduction

Maastricht returns (EDP Notification Tables) are submitted by each Member State to Eurostat twice yearly, at end-March and end-September. In Ireland, the tables are compiled jointly by the Department of Finance and the Central Statistics Office (CSO). Following a rigorous three week clarification process, the agreed returns are published by Eurostat. The Maastricht return for Ireland is published on the Department's website.

The tables report the first official outturn estimates of 2011 general government deficit and debt.[1] Updated figures for 2008-2010 are included as well as forecasts for 2012. These statistics are given in Table 1 of the return and are shown here in Table A.

Table A: Deficit and Debt for Ireland 2008-2012 (€m and per cent)

	2008	2009	2010	2011	2012
Status	Final	Final	Final	Half-finalised	Planned
General government balance	-13,219	-22,519	-48,607	-20,515	-13,055
General government debt	79,582	104,602	144,241	169,264	186,381
Deficit as % of GDP	7.3	14.0	31.2	13.1	8.2
Debt as % of GDP	44.2	65.1	92.5	108.2	117.1

The tables show that Ireland's headline deficit in 2011 was 13.1 per cent of GDP. A significant amount of this deficit (3.7 percentage points of GDP) arises from capital injections into financial institutions that took place in July last year (see Treatment of July injections below). The underlying balance excludes the effect of capital injections in 2009, 2010 and 2011. The underlying balance gives a better picture of the balance of receipts and expenditures of general government. Table B shows the underlying balance for 2008-2012.

[1] A negative balance implies that the accounts are in deficit

Table B: Ireland’s underlying deficit 2008-2012 (€m and per cent)

	2008	2009	2010	2011	2012
Status	Final	Final	Final	Half-finalised	Planned
Underlying balance	-13,219	-18,519	-17,032	-14,735	-13,055
Underlying deficit as % of GDP	7.3	11.5	10.9	9.4	8.2

Ireland’s underlying deficit fell by 1.5 percentage points to 9.4 per cent of GDP in 2011, well below the EC/ECB/IMF target of 10.6 per cent.

Treatment of July 2011 injections into banks

In July 2011, a net amount of €16.5 billion was injected into Irish financial institutions. At the time of the end-September Maastricht return, it was indicated publicly that a full examination of the deficit-impacting amount of this transfer would be made before the next notification. (The impact on the debt is already reflected in the September return). The outcome of this exercise is that of the €16.5 billion injected in June 2011, €5.8 billion is classified as deficit-increasing capital transfer.

This adds 3.7 per cent of GDP to the deficit for last year. However, the recapitalisation of July 2011 was fully reflected in Ireland’s general government debt reported by Eurostat in September 2011, so Ireland is no worse off. This is simply a statistical reclassification from financial transaction to capital transfer for deficit purposes. There is no impact on our debt position.

Eurostat has worked closely with the CSO on the methodology for evaluating the capital transfer element. Eurostat however expresses a reservation on the capital transfer amount due to the fact that restructuring plans of AIB and IL&P, which were used in the analysis are not yet finalised. This is a prudent approach by Eurostat. When these plans are finalised and if the final version does not differ significantly from the ones used here, this reservation will be lifted. We anticipate that this will happen before the next notification in September.

NAMA

A Eurostat 2009 special note on the financial crisis allows for the exclusion from general government debt and deficit statistics of a short-term new special purpose vehicle that is privately owned, is not expected to make losses and whose purpose is to deal with the financial crisis,.

The NAMA special purpose vehicle (SPV) was established with Eurostat’s approval in this way. One of the current owners of shares in the NAMA SPV is Irish Life. This was in private ownership before the State became the main shareholder of IL&P. As Irish Life is now in public ownership, Eurostat has made enquiries as to the ownership status of the NAMA SPV.

Eurostat has expressed a reservation on our Maastricht returns indicating that it might have been necessary to classify the special purpose company inside the general government sector if the situation regarding ownership had persisted.

The Department of Finance has been notified that sale of the Irish Life shareholding in the NAMA SPV to private investors has been agreed and the transaction will legally complete in 2-3 weeks. For commercial reasons it is not possible to comment further on this transaction. As a consequence the NAMA SPV will not be brought onto the government balance sheet.

Treatment of the 2012 payment of the promissory note

On 2nd April 2012, the annual promissory note payment of €3.1 billion was made with a government bond and not by cash. In fact this has no direct effect on the general government balance. There is an indirect effect because the interest rate on the bond is higher than the interest on borrowing under the EU/ECB/IMF programme. This difference is estimated as €90m.

The nominal value of the government bond is €3.5 billion. All things being equal, the effect of payment by this bond rather than cash borrowing adds 0.3 percentage points to the debt to GDP ratio.